

Catalyst: Endowment

Annual Report 2014

Developments between November 2013 – October
2014

February 2015



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1 Introduction

This is the second of five Annual Reports which will be produced every year until 2017. This report covers the progress of the University of Kent's evaluation project by providing a round-up of developments of a number of key initiatives.

31 organisations were awarded a *Catalyst: Endowment* grant and all are included in the evaluation project. They are as follows:

First round organisations:

- Arnos Vale Cemetery Trust
- Dulwich Picture Gallery
- Greenwich Foundation for the Old Royal Naval College
- Lakeland Arts Trust
- Lincoln Cathedral
- Linen Hall
- Mary Rose Trust
- National Museum of the Royal Navy
- National Portrait Gallery
- Pallant House Gallery
- Sir John Soane's Museum
- St Martin-in-the-Fields PCC
- Strawberry Hill Trust
- The Abbotsford Trust
- The Bowes Museum
- The British Library
- The Holburne Museum of Art
- Victoria & Albert Museum

Second round organisations:

- Ashmolean Museum of Art and Archaeology
- Churches Conservation Trust
- John Clare Trust Ltd
- London Wildlife Trust
- National Horseracing Museum
- Peterborough Cathedral
- Severn Valley Railway
- South Tynedale Railway Preservation Society
- ss Great Britain Trust
- Tank Museum
- The Holocaust Centre
- The Wiener Library Institute of Contemporary History
- Watts Gallery Trust

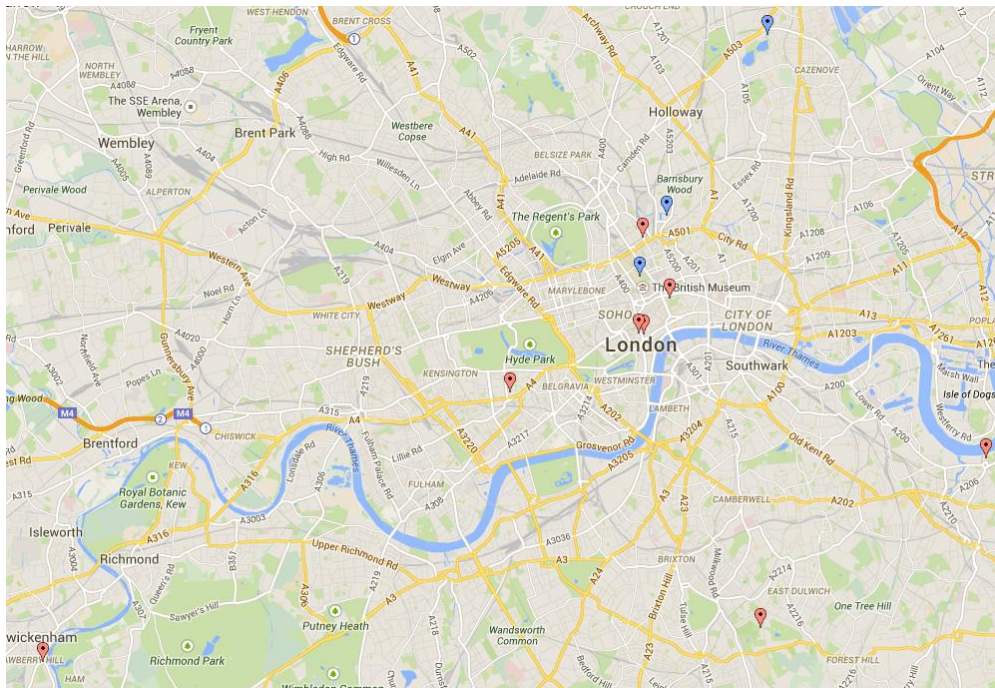
In terms of the location of these organisations, there is a geographical skew towards London, with 11 organisations found in the capital. Beyond this there is a spread around the UK, and the map below illustrates their locations.

Map of the location of the 31 organisations

The UK



London



Key:

Red = First round organisation

Blue = Second round organisation

1.1 Headline findings

The key findings of the Annual Report 2014 are as follows:

Annual Review

- First round organisations have drawn down 36% of the £27.5m awarded to them and second round organisations have drawn down 8% of the £8.5m awarded to them.
- The number of organisations that said that they had already recruited new staff had increased from 18% to 30%, probably because round two grantees have started fundraising in the past year. Just 5% still intend to recruit fundraising staff for *Catalyst*.
- For the control group, total voluntary income has dropped three years in a row, and as a proportion of incoming resources, it has dropped from 16% to 5% to 4%. The average value of voluntary income has dropped to £3m in 2013/14.
- Among the endowment grantees, the biggest reliance on an income stream in 2013/14 is from individual donors giving £5k or more per year, followed by 'grants from trusts and foundations'. In the previous two financial years 'trading income' had been at the top, but this has dropped dramatically in importance across the board. At the bottom is digital giving/crowdsourcing at 0%, which is the same position as in previous years.

Case studies

- There is a mixture of ways that organisations plan to use their endowment. For many, conservation, restoration, preservation and maintenance are the watch words, and for others it is a way for some organisations to afford to keep their doors open and to give them general security as they will be able to rely on a future income coming in.
- Most organisations said that if they had not been awarded the grant, they would have gone ahead and begun to fundraise for an endowment, although most said that they would have started later and worked at a slower pace. Many plan to keep fundraising beyond the grant award period to reach a higher level in order to increase their resilience.
- There was an enormous range in the types of donors that organisations were planning to target. Major individual donors were mentioned several times, but the general public, trusts and foundations, Friends and Patrons/members and legacy donations were all mentioned.
- Generally, first round organisations did not anticipate needing to learn or acquire new fundraising skills especially for endowment fundraising. Among the second round organisations, there was more learning taking place. Some staff needed to learn about endowments and their management, as endowments were often new to the organisation.

Annual workshops

- Overall, feedback was positive and was seen as a worthwhile event to attend. The mixture of discussion and learning from expert speakers seems to hit the right note for attendees and there was an excellent atmosphere of open sharing and problem solving from the whole group.
- Achieving 'double matching' was discussed (obtaining a major gift so that smaller donations can be matched against this, and then matched again by *Catalyst*). More than one grantee organisation has had success with this, and others are interested in pursuing it.
- When discussing the topic of engaging trustees in the fundraising and *Catalyst* challenge, organisations felt that the challenge is to encourage trustees to see fundraising as their responsibility, and to help them see that it is not scary.

Application and draw-down process

- Since the last Annual Report, mainly second round organisations have been interviewed and have provided feedback on the application process. As such, last year's general negativity towards the timing of the application deadline has been overtaken by a more accepting feeling. This year organisations generally seem to be more understanding of the complexity of the application form, feeling that it is necessary for the grant sums involved.
- The feedback on the HLF regional offices and case workers is very positive, with most singing their local office's praises.
- With regard to the draw-down process, so far the organisations have mainly found it to be a straightforward process, which they have been pleased with, although some reported taking a while to get used to what to do.

2 Summary of the Annual Review

The Annual Review document contains the findings from the monitoring and tracking work that is ongoing on an annual basis for the duration of the evaluation project. This work includes monitoring organisations' progress against their fundraising targets, the tracking of financial indicators such as income streams and fundraising expenditure which are gathered in a web survey annually, and the monitoring of the financial health of a control group (organisations which were unsuccessful in their application for a *Catalyst: Endowment* grant). There have been two Annual Review documents to date.

2.1 Headline findings

The key findings of the Annual Review 2014 (November 2013 - October 2014) are as follows:

Progress against fundraising targets

- 12 first round organisations are behind schedule with their fundraising, four are ahead and none are on-track. In the second round, three are ahead, ten are behind and again none are on-track.
- First round organisations have drawn down 36% of the £27.5m awarded to them.
- Second round organisations have drawn down 8% of the £8.5m awarded to them.

Financial status changes (survey)

- The biggest reliance on an income stream in 2013/14 is 'donations from individuals - major donors (£5,000 or more pa)'.
- The greatest change in fundraising expenditure was in marketing/publicity which has dropped by over 12 percentage points, followed by resources spent on grant applications which has dropped by over 10 percentage points.
- The number that said that they had already recruited had increased from 18% to 30%, probably because round two grantees have started fundraising in the past year. Just 5% still intend to recruit fundraising staff for *Catalyst*.
- The biggest reliance on an income stream in 2013/14 is from individual donors giving £5k or more per year, followed by 'grants from trusts and foundations'. In the previous two financial years 'trading income' had been at the top, but this has dropped dramatically in importance across the board. At the bottom is digital giving/crowdsourcing at 0%, which is the same position as in previous years.

The control group

- In 2011/12, 21 of the 43 organisations (49%) declared an endowment, and it appears that no other organisations have started an endowment since then. This is very close to the pattern among the grantee organisations where 14 of 31 (45%) had an endowment before their grant award.
- Total voluntary income has dropped three years in a row, and as a proportion of incoming resources, it has dropped from 16% to 5% to 4%. The average value of voluntary income has dropped to £3m in 2013/14, suggesting more reliance on contracts and commercial activities. Among the grantee organisations however, total voluntary income always accounted for a larger share of voluntary income: the proportion dropped from 38% in 2011/12 down to 36% in 2012/13, only to jump markedly in 2013/14 to 67% due to the drop-off in trading income and more reliance on grants and donations from individuals.
- Grant income has increased over the three years and it has also remained fairly consistent as a percentage of incoming resources, dropping from 42% to 40% to 39%. The average value of

grants received by organisations was £35m in 2013/14. Grant income is very important in terms of bringing in an income to the control group organisations, and is at a far higher level than among the grantee organisations. For the grantees, income has dropped by two percentage points in 2013/14 to 13% of total income and while grant income is the second largest voluntary income stream, it is quite a long way behind individual major donor donations which was at 24% of incoming resources in 2013/14.

3 Case studies

The case study element is the qualitative portion of the evaluation project. It is a two-stage process and the first stage is almost complete. In the first stage, 30 organisations were visited (The National Museum of the Royal Navy is excluded from the methodology as they achieved their full target at an early stage, and so a case study would not be appropriate for them) in the first year or two of their grant to conduct an interview which led to a case study document. This stage captures the early fundraising work of the organisations, their thoughts on the *Catalyst: Endowment* scheme and future fundraising plans. By visiting them it is possible to see what they have already achieved through capital appeals and previous Heritage Lottery Fund grants, and to meet them in person. By meeting in person a relaxed interview can be achieved, so that the maximum level of detail can be obtained. It also has the benefit that they feel that the line of communication with the evaluation team is firmly open.

The second stage of the process is a phone call to each organisation either in the final year of their grant period or earlier if they are on-track to finish early, to gather their perspectives on the project as it is coming to a close. This will culminate in a document which focuses on retrospective views of the project, but also draws upon the first case study document.

3.1 Methodology

The first stage of the case study element of the evaluation is nearly complete. After the first workshop that the round one and two grantee organisations attended, the main contacts were telephoned to tell them in more detail about the case study work, to answer any questions about The University of Kent's role in *Catalyst: Endowment* and their case study visit, and to book a date for the case study itself. The date was chosen by the organisation based on issues such as wanting to get started with their fundraising before the visit, choosing a quiet time (such as avoiding an exhibition) or making sure that they are open to the public at the time of the visit. All of the organisations have been visited, with the exception of the National Museum of the Royal Navy which is not part of the case study process.

The topics covered in the first stage of the case study process include:

- Experiences so far in the *Catalyst* programme.
- What fundraising has been done to date
- What their ultimate endowment target is
- Their fundraising plans and target donors
- Whether an endowment was already planned
- Future plans for the organisation
- How embedded *Catalyst: Endowment* is in the organisation
- Whether they will diversify their income streams
- Experiences of any changes in donor attitude towards heritage organisations

- Private funding successes and challenges
- Non-monetary benefits from donor relationships
- Need for new fundraising skills
- Other impacts on financial sustainability of the organisation
- Future sustainability
- Achievement of the outcomes: heritage will be better managed; your organisation will be more resilient
- Advice to fellow or future grantees
- Experience of the Heritage Lottery Fund's application and grant management process

3.2 Findings

In the 2013 Annual Report, a summary of recurrent themes raised during the case study visits were documented, and these fell under seven headings. These case studies were predominantly conducted with first round organisations, and as such in this year's report, slightly different findings have arisen under these headings.

In summary, last year's report found that:

- All of the organisations, during the case study visit are interested to know how other organisations are doing.
- Most/all of the organisations have a long-standing relationship with the Heritage Lottery Fund, having received capital grants in the past, and many are either in the process of applying for new grants or are planning to apply for new funding in the near future.
- **How organisations plan to use their endowment:** There is a mixture of ways that organisations plan to use their endowment. For many, conservation, preservation and maintenance is key but it is also a way for some organisations to keep their doors open and to give them the security of a future income.
- **Thoughts on Catalyst: Endowment:** Many organisations had already planned to build an endowment, or were already beginning to raise money. For others an endowment was not originally in their fundraising plans, but they capitalised on the opportunity.
- **Diversification of income:** In the case studies, there was not a huge sense that the endowment fundraising would significantly diversify income streams, but mainly because the organisations felt that they were already diversified in this regard.
- **Target donor groups:** Major individual donors were mentioned several times, but the general public, trusts and foundations, Friends and Patrons/members were all raised, as well as seeking legacy donations.
- **Charity structure:** There was a mixture among the organisations between holding the endowment as a separate restricted fund within their main charity's accounts, to creating a separate charity specifically for the endowment, usually with separate trustees.
- **Outcomes:** Generally, the organisations felt that they would achieve the outcome of 'heritage will be better managed'. For some, the management would be physically obvious as it would be done through building maintenance, whereas for others it was about bringing in new staff who would in turn manage the heritage. For the 'your organisation will be more resilient' outcome whether through maintaining something physical or having the security that they will be able to keep the doors open, they anticipated increased resilience.

- **New fundraising skills:** Generally, organisations did not anticipate needing to learn or acquire new fundraising skills especially for endowment fundraising.

In the last year an additional 16 case studies have been signed off, mainly with the second round organisations. The case studies have revealed, in addition to the 2013 findings that:

How organisations plan to use their endowment

Particularly in the last year, the endowment of salaried posts has been mentioned fairly frequently as the aim of the endowment. Other uses include the advancement of education/knowledge, exhibition/collection improvements, outreach/engagement and work with volunteers. Restoration has also been raised in addition to conservation and preservation.

Thoughts on Catalyst: Endowment

Some of the second round organisations had applied in the first round of funding and had been unsuccessful, but re-applied and got the grant second time around. Many also plan to keep fundraising beyond the grant award period to reach a higher level in order to increase their resilience. The endowment becomes some organisations' total focus, while for others it runs alongside other campaigns or projects. Some of the organisations had an endowment before applying to HLF, although this was the minority of organisations. Most organisations said that if they had not been awarded the grant, they would have gone ahead and begun to fundraise for an endowment, although most said that they would have started later and worked at a slower pace.

Diversification of income

Whilst the majority of organisations still said that *Catalyst* would not cause them to diversify their income streams, in the last year a few organisations mentioned that they would start a legacy programme for the first time, and one reported that they were going to start a lottery.

Target donor groups

Overall in the last year there was an emphasis on prioritising speaking to people they already know far ahead of gaining new leads. Newly mentioned types of donors to target included personal trusts, visitors, city workers, and a few organisations mentioned that they would look overseas as well as in the UK.

Charity structure

There was no real change in reports on charity structure in the last year, with the same split between grantees creating a separate charity for the endowment or operating it as a restricted fund in the accounts. The separate charity option is particularly useful when the purpose of the endowment is not closely linked with the main charity's objectives.

Outcomes

In terms of achieving the 'heritage will be better managed' outcome, in the last year organisations mentioned endowing existing posts so that they could in turn manage the heritage. Several organisations were focused on learning, others public engagement and improved visitor experience.

For the outcome 'your organisation will be more resilient', in the last year most organisations said that they would be 'more resilient' rather than 'totally resilient'. For some organisations resilience

was about no longer being reliant on visitor income or fundraising to keep the doors open, for others it was about keeping posts secure or aiding their independence.

New fundraising skills

Among the second round of organisations, there was more learning taking place around how to fundraise for an endowment, than had been evidenced in the first set of case studies. Some needed to learn about endowments and their management, as endowments were often new to the organisation as well as the staff. For some this involved working out how to manage an endowment alongside a capital appeal. Writing trust and foundation applications was another skill learned. Some organisations planned to bring in new skills to deal with endowment work that needed to be done.

4 Annual workshops

The University of Kent runs a workshop for grantee organisations early each year, where organisations, case officers, national office staff and the evaluation team are invited to come together to network, discuss experiences, share fundraising progress, and to learn from experts who are invited to speak at the event. In 2013, two workshops were held, one in February for the first round of organisations, and then another in October 2013 for second round organisations. Those first round organisations that had not attended the February event or who had a new starter in post for *Catalyst* were also invited to the October event.

In 2014, the annual workshop was held in London in March, and was an opportunity for all 31 grantee organisations to come together.

4.1 General feedback on the 2014 workshop

The 2014 workshop built on the feedback from the 2013 workshops, and as such had a similar structure with presentations, group discussions and networking breaks. Overall, feedback was positive and was seen as a worthwhile event to attend. The mixture of discussion and learning from expert speakers seems to hit the right note for attendees and there was an excellent atmosphere of open sharing and problem solving from the whole group. 100% of delegates said that the event was either 'very good' or 'good', with two-thirds (65%) of these saying 'very good'.

4.2 Speakers

Kath Russell, Director of Development at the HALLÉ and Pesh Framjee, Head of National Not for Profit Group at Crowe Clark and Whitehill, both spoke at the event.

Kath gave a presentation which covered fundraising for endowment from the perspective of a regional performing arts organisation. Some of the key points that Kath made were that:

- They did not want donors to stop giving to one programme simply to give to the endowment, so they kept the message low key and went to core donors first. The ask was for an extra gift to make use of the matching. The result was that the Patrons gave more overall rather than shifting their donations from one pot to another.
- New donors have been brought in, just on the basis of the matching.
- They encourage direct debits or instalment giving, even if they are offered a lump sum. The hope is that the donor will continue to give beyond the *Catalyst* grant period. In the first mailing suggesting this to donors, 30 agreed to move to direct debit.

Pesh presented the legal definitions that charities need to be aware of with regard to endowments, and examples of ways that the grantee organisations could alter their accounting to take advantage of the charity accounting rules. Some of the key points that Pesh made were that:

- With legacy donations, in some cases an unspecified gift could be applied to an endowment if its purpose was implied. It is not possible to ask the legator where they intended for charity to spend the money, but the charity has a case to argue with the executor from their knowledge of the legator that giving it to the endowment was implied.
- There is a mechanism for a donor to give a large gift to a charity, when the gift is a higher amount than the amount of tax that they have paid in that year, which is to carry back the tax if the previous year's tax return has not been filed.
- If a charity disagrees with HMRC on any points, they can go to tax tribunal to resolve the issue.

4.3 Roundtable discussions

Early on in the workshop, all grantees were asked to speak in turn to introduce their organisation, and to give an example of at least one thing that has worked particularly well in their *Catalyst* fundraising, and one challenge. A number of similar experiences and themes arose from the discussion:

- Several organisations had found that their donors either did not understand, or found boring the word 'endowment', and so they are steering away from using this in the messaging
- Many organisations are approaching and having success with trusts and foundations, whilst others are finding only dead ends in this regard
- Achieving 'double matching' was discussed (obtaining a major gift so that smaller donations can be matched against this, and then matched again by *Catalyst*). More than one grantee organisation has had success with this, and others are interested in pursuing it
- The lack of trustee engagement with fundraising was noted several times, and solutions included giving them ownership or responsibility for fundraising, or making it clear that they are expected to make a donation to the endowment
- Demanding donors were discussed and it was agreed that donors are often demanding because they care. The best thing to do is negotiate with them over their demands
- Several organisations, often those which are relatively young charities are starting from a position of having no donor pool, which means that they are almost starting from scratch with their fundraising
- Acquiring peer group introductions from trustees are being progressed by numerous organisations, as an important way to widen their donor pool

In the last session of the workshop, there was a discussion on the topic of engaging trustees in the fundraising and *Catalyst* challenge. A number of similar experiences and themes arose from the discussion:

- Within organisations there is a mixture of trustees who are very engaged in fundraising and those who are less so. Within this, some donate generously and others less so, and some bring in peers and others do not
- The challenge is to encourage trustees to see fundraising as their responsibility, and to help them see that it is not scary
- Trustees need regular contact with fundraisers to learn what fundraising involves and to get a sense of what their role could be in it

4.4 Q&As

There were two Q&A sessions during the workshop, with answers and suggestions provided both by speakers and by grantees, in an informal discussion format. The key themes that were raised during the sessions were:

- How can we bring in new donors, particularly high net worth individuals?
- How do we plan ahead for continuing endowment donations beyond the term of our grant period?
- How do we deal with donor concerns about our low rate of return on the investment?
- What can be claimed as a fundraising cost that could be considered a benefit by some accountants?
- How does a donor loan to a charity work in practice?

4.5 Evaluation form results

26 attendees (from 20 grantee organisations) completed their evaluation form, and all gave very helpful and positive feedback. The top-level summary of results is as follows:

- 100% of delegates said that the event was either 'very good' or 'good', with two-thirds (65%) of these saying 'very good'.
- In each of the elements of the organisation scores, the vast majority of attendees said that they were either 'very satisfied' or 'satisfied'.
- In each of the elements of the content of the event scores, the majority of attendees said that they were 'very satisfied' or 'satisfied'.

Actions that grantees highlighted that they would take forward as a result of the workshop included:

- Share with colleagues Pesh Framjee's slides
- Share with colleagues the ideas given by other grantee organisations
- Talk to trustees about fundraising
- Develop a longer-term strategy for the endowment beyond *Catalyst*

4.6 Future workshop ideas

The grantee organisations were asked in their evaluation form to suggest ideas for future events, and these ideas are listed below. The evaluation team and Heritage Lottery Fund will also consider the possible themes for future events, in addition to those raised in 2013:

- Legacies as part of the *Catalyst* campaign
- A trustee to speak
- Keeping fundraising going after *Catalyst*
- Crowdsourcing
- Grant-making trusts and foundations: application advice